

February 22, 2005

PRESIDENT'S ADVISORY
PANEL
ON FEDERAL TAX REFORM

John Snow
Secretary of the Treasury
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

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Re: President's Advisory Panel on Federal Tax Reform

Dear Secretary Snow:

I was disappointed that I was unable to find contact information for the President's Advisory Panel on Federal Tax Reform at either whitehouse.gov or firstgov.gov. Therefore, I am writing to you regarding the issues now before the panel.

As I guess is true for most ordinary citizens, I do not have any quarrel with the first two principles the President has set out for tax reform: simplicity and fairness. For myself, I believe fairness is far more important in considering tax reform than is simplicity, but I believe both principles should be pursued where they are not in conflict.

I also have no disagreement with the third principle (the promotion of economic growth), but I believe this principle will likely produce most of the difficulties the panel will face. I believe this true because determining which tax policies will promote economic growth in the long run is a very difficult task, which has been made more difficult by the dogmatic attitudes that have characterized much of the debate regarding tax policy and economic growth since the early 1980s. The second difficulty regarding the President's third principle is that it inevitably presents some difficult conflicts with the principles of fairness and simplicity.

As a citizen, I would suggest that the wisest course of action would be to maintain a progressive income tax on both wages and investment income, reinstate the estate tax with a much higher threshold, and institute a modest national sales tax. I believe it is possible to maintain the current progressive nature of the income tax while greatly simplifying the tax code by reducing the bewildering variety of deductions, credits, and other adjustments to income that currently exist. At the same time, reinstituting the estate tax and instituting a modest national sales tax would allow for the existing income tax rates to be reduced considerably. I believe that such a course best embodies the classical moderation so admired by the founders of our nation.

I have the following comments on particular tax issues that have been much in the news in recent months:

1) A National Sales Tax

- a) I do not believe that replacing the income tax entirely with a national sales tax meets the principle of fairness because it taxes the expenditures that everyone

(including those with the lowest incomes) must make while leaving untaxed the savings of those with the highest incomes. This will result in reducing the standard of living for the poorest of our citizens, while allowing the wealthiest to accumulate even greater wealth, exaggerating the already great and growing disparities in our society.

b) However, I do believe that instituting a modest national sales tax (perhaps 1-5%) as part of a broader tax plan that includes an income tax would have a number of advantages:

i) It would reward saving, since money saved would not be subject to the sales tax. This should result in an increased savings rate, and an increased savings rate would reduce our dependence on foreign capital and could stimulate economic growth as additional domestic savings flow into productive investment.

ii) In addition, a national sales tax would cause tax evaders and participants in the underground economy to pay some taxes, since everyone uses their income to purchase at least some goods at the cash register. While a small sales tax would not entirely correct this problem, it would at least insure that everyone paid some of the taxes that support the federal budget.

2) A Flat Tax

a) While a flat income tax does embody the principle of simplicity, I do not believe that it can meet the test of fairness. A flat income tax taxes wage earners at all income levels in the same proportion. Thus replacing our current progressive income tax system with a flat tax would increase the tax expense of those with the lowest incomes, which will make the already precarious situation of our most marginal citizens more difficult, solely in order to reduce taxes on extremely high income citizens.

b) I would strongly urge that the progressive nature of the current income tax be maintained in order to meet the test of fairness by having those better able to support the federal budget support it with a greater proportion of their income. Furthermore, the current top marginal rates have a limited impact on economic growth and are quite moderate in comparison to the top marginal rates in past decades, which were as much as 90% 50 years ago or 50% only 20 years ago.

3) An Estate Tax

a) I believe that an estate tax is a valuable component of a moderate, balanced tax plan. Although I do not have specific statistical information to support this contention, I believe that a graduated estate tax with a threshold high enough to exclude 99% of all estates can still generate significant revenue from the estates of a few extremely wealthy individuals.

b) By setting the threshold high enough (and indexing it for inflation), I believe that most of the issues regarding the estate tax threat to family owned farms and businesses can be addressed. If the threshold for the estate tax were set at \$10 million, I believe it would threaten very few true "family" farms or small businesses.

c) In addition, avoiding the excessive concentration of wealth generation after generation will itself stimulate entrepreneurial activity and the economic growth that comes with it, in addition to reducing the rates required under both a national

sales tax and income tax. As well, an estate tax, by reducing the concentration of wealth, will also reduce the social tensions that have been growing as wealth has become more and more concentrated since the 1960s.

Finally, I would like to discuss tax reform and affordable housing. Here I would like to acknowledge a vested interest in the issue, since I work for an organization involved in the development and management of affordable housing. With that said, I still believe that maintaining a mechanism for developing and financing affordable housing is a critically important social goal that I would support whether I worked in the industry or not. Therefore, I would urge the administration to consider that the Low Income Housing Tax Credit is currently almost the only program in existence for the production of new units of affordable rental housing. Please preserve this important program. Since the 1986 Tax Reform Act, it has proven to be extremely effective at attracting private dollars to support the socially beneficial but uneconomic business of renting apartments at affordable rates to individuals and families who could not otherwise afford decent, safe, and sanitary housing. Certainly there are salutary reforms that could be made to the program, but to destroy it would be extremely short-sighted.

I hope these recommendations find their way to your desk, and I thank you or whichever staff person reads this letter.

Sincerely,



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